

CARSONVILLE-PORT SANILAC SCHOOLS

Carsonville, Michigan

Report on Financial Statements
(with additional information)

June 30, 2006

CARSONVILLE-PORT SANILAC SCHOOLS
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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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September 22, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Carsonville-Port Sanilac Schools
Carsonville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carsonville-Port Sanilac Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Carsonville-Port Sanilac Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Carsonville-Port Sanilac Schools as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of Carsonville-Port Sanilac Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages *i* through *ix* and page 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Board of Education
Carsonville-Port Sanilac Schools
September 22, 2006

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carsonville-Port Sanilac Schools' basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Carsonville-Port Sanilac Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Carsonville-Port Sanilac School District, a K-12 school district located in Sanilac County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to provide, in layman's term, a look at the district's performance and past and current position.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. This is our third year of implementation so certain comparative information between the current year and the prior year is required to be presented in the MD&A. Our district has met those requirements to our knowledge.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's “Accounting Manual.” In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Carsonville-Port Sanilac School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Summary of Net Assets

The following schedule summarizes the net assets at fiscal year ended June 30, 2006:

Assets	2006	2005
Current assets	\$1,657,635	\$ 1,724,991
Deferred Amount on bond refunding	405,000	405,000
Less Accumulated amortization	(25,313)	(5,063)
Capital assets	13,350,337	13,328,897
Less: Accumulated depreciation	<u>(5,474,694)</u>	<u>(5,047,827)</u>
Total assets	<u>\$9,912,965</u>	<u>\$10,405,998</u>
Liabilities		
Current liabilities	\$1,090,899	\$995,580
Long-term liabilities	<u>7,733,828</u>	<u>8,230,292</u>
Total liabilities	<u>\$8,824,727</u>	<u>\$9,225,872</u>
Net Assets		
Invested in capital assets, net of related debt	\$77,925	\$ 95,051
Restricted for debt service	472,915	490,707
Unrestricted	<u>537,398</u>	<u>594,368</u>
Total net assets	<u>1,088,238</u>	<u>1,180,126</u>
Total liabilities and net assets	<u>\$9,912,965</u>	<u>10,405,998</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets decreased by \$ 91,888. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Carsonville-Port Sanilac School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$ 426,867 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$ 21,440 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$405,427 for the fiscal year ended June 30, 2006.

Results of Operations

For the fiscal year ended June 30, 2006, the results of operations, on a District-wide basis, were:

General Revenues	2006	% of Total	2005	% of Total
Property taxes	\$1,524,947	25.69%	\$1,481,020	25.92%
Investment earnings	13,370	.23%	10,031	0.18%
State sources	3,756,264	63.25%	3,571,440	62.52%
Other	<u>118,690</u>	<u>2.00%</u>	<u>119,524</u>	<u>2.09%</u>
Total general revenues	<u>\$5,413,271</u>	<u>91.17%</u>	<u>\$5,182,015</u>	<u>90.71%</u>
Program Revenues				
Charges for services	\$114,920	1.93%	\$142,476	2.49%
Operating grants	<u>409,610</u>	<u>6.90%</u>	<u>388,434</u>	<u>6.80%</u>
Total program revenues	<u>524,530</u>	<u>8.83%</u>	<u>530,910</u>	<u>9.29%</u>
Total revenues	<u>\$5,937,801</u>	<u>100.00%</u>	<u>\$5,712,925</u>	<u>100.00%</u>
Expenses				
Instruction	3,182,733	52.78%	\$3,082,769	52.15%
Support services	1,634,509	27.11%	1,568,036	26.53%
Transfer to other districts	5,354	.09%	2,824	.05%
Food services	229,071	3.80%	198,073	3.35%
Athletics	172,722	2.86%	179,038	3.03%
Interest on long-term debt	357,241	5.92%	425,719	7.20%
Unallocated depreciation expense	426,867	7.08%	448,723	7.59%
Amortization	20,250	.34%	5,063	.09%
Other	<u>942</u>	<u>.02%</u>	<u>970</u>	<u>.02%</u>
Total expenses	<u>\$6,029,689</u>	<u>100.00%</u>	<u>\$5,911,215</u>	<u>100.00%</u>
Increase (decrease) in net assets	<u>\$(91,888)</u>		<u>\$(198,290)</u>	

Carsonville-Port Sanilac School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District 18 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the district levied \$ 817,203 non-homestead property taxes. This represented an increase of 6.77% from the prior year. The amount of unpaid property taxes at June 30, 2006, less an estimate for those deemed to be un-collectible, was \$7,580.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2005 - 2006	\$ 817,203	6.77%
2004 - 2005	\$ 765,384	3.40%
2003 - 2004	\$ 740,285	10.80%
2002 - 2003	\$ 668,581	1.60%
2001 - 2002	\$ 658,606	9.20%
2000 - 2001	\$ 603,342	6.70%
1999 - 2000	\$ 565,480	4.70%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005 - 2006 fiscal year, the District's foundation allowance was \$ 6,875 per student FTE.

Carsonville-Port Sanilac School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

3. Student Enrollment

The following schedule compares actual to budgeted FTE for the blended student enrollment for the past five fiscal years:

	Actual Blended Student FTE	Budgeted Blended Student FTE	Variance Favorable (Unfavorable)
2005 – 2006	632.13	632.00	.13
2004 – 2005	632.00	632.00	0
2003 – 2004	623.00	623.00	0
2002 – 2003	630.50	615.00	15.5
2001 – 2002	644.00	646.00	(2)
2000 – 2001	665.96	646.20	19.76
1999 – 2000	658.99	661.00	(2.01)

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state and other grants accounted for \$409,610. This represents an increase of \$21,176 over the total grant sources received for the 2005 – 2006 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2006, the District received an allocation from the Sanilac Intermediate School District in the amount of \$31,200 to assist with the education of students with special needs.

6. Interest Earnings

The District received interest on its investments in the amount of \$13,370 for the fiscal year ended June 30, 2006. Interest revenues are up from the prior fiscal year by \$3,339.

Carsonville-Port Sanilac Schools

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund balances is shown below.

Expenditures	2005 – 2006 Fiscal Year	2004 – 2005 Fiscal Year	Increase (Decrease)
Instruction	\$ 3,211,887	\$ 3,088,580	\$ 123,307
Supporting services	1,647,003	1,570,526	76,477
Food service activities	229,071	198,073	30,998
Athletic activities	172,722	179,038	(6,316)
Debt service	<u>748,819</u>	<u>764,145</u>	<u>(15,326)</u>
Total expenditures	<u>\$ 6,009,502</u>	<u>5,800,362</u>	<u>209,140</u>

Carsonville-Port Sanilac Schools

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2005 – 2006 fiscal year, the district amended the general fund budget two times with the Board adopting the changes in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget- positive (negative)	% Variance
Total revenues	<u>\$ 4,878,555</u>	<u>\$ 4,851,628</u>	<u>\$ 4,897,538</u>	<u>\$ 45,910</u>	<u>.95%</u>
Expenditures:					
Instruction	\$ 3,188,828	3,303,496	3,211,887	91,609	2.77%
Supporting services	<u>1,728,142</u>	<u>1,714,384</u>	<u>1,647,003</u>	<u>67,381</u>	<u>3.93%</u>
Total expenditures	4,916,970	5,017,880	4,858,890	158,990	3.17%
Other financing sources	<u>(198,048)</u>	<u>(152,458)</u>	<u>(158,274)</u>	<u>(5,816)</u>	<u>(3.81)%</u>
Excess of revenues over expenditures & other sources	<u>\$(236,463)</u>	<u>\$(318,710)</u>	(119,626)	<u>\$199,084</u>	62.47%
Fund Balance – beginning of year			<u>696,495</u>		
Fund Balance – end of year			<u>\$576,869</u>		

Carsonville-Port Sanilac School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Capital Asset and Debt Administration

Capital Assets

By the end of the 2005 – 2006 fiscal year, the district had invested \$13,350,337 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of approximately \$21,440 over the prior fiscal year. Depreciated expense for the year amounted to roughly \$426,867 bringing the accumulation to \$5,474,694 as of June 30, 2006.

Long- term Debt

At June 30, 2006, the District had nearly \$8,177,405 in bonded debt outstanding. This represents a reduction of \$408,551 over the amount outstanding at the closed of the prior fiscal year as no new debt was issued in the 2005– 2006 fiscal year.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2005 – 2006 fiscal year.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Due to the increase in the retirement rate and the number of retirees projected to occur over the next few years, higher annual costs are likely.
- The contract with the Carsonville-Port Sanilac Schools Education Association, the union that represents the teaching staff, expires August 31, 2006. Contract negotiations with the teachers are near settlement with very reasonable increases. Negotiations with the support groups on a new contract are commencing.
- The state of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Carsonville-Port Sanilac School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Next Years Proposed Budget 06/07

For this Proposed Budget hearing we wish to comply with Section 16 of the Uniform Budgeting and Accounting Act and state that our proposed property tax millage rate to be levied this fall is 18 mills. This will generate \$ 842,439 in local property taxes. This is based on the Non-Homestead Taxable Value of \$46,802,187.

Revenue:

The local revenue was adjusted to reflect student enrollment figures from the February 2006 and projected fall 2006 count.

Expenses:

The pay scales have moved the employees to the appropriate wage steps for the upcoming year. As stated earlier, negotiations with the teachers are near settlement with very reasonable increases.

The retirement rate has increased 1.40%, going from 16.34% to 17.74%; which represents an increase in expense of 8.00%.

The healthcare benefits have increased 6.7% for MESSA health insurances for the teachers. The district has 12% caps on employee insurance premiums and is currently negotiating this percentage. Many support employees of the district have switched to another insurance plan; Health Savings Account. This has saved both the district and the employee in health care costs..

The district continues to operate with a half-time Superintendent. This saves the district approximately \$121,000 per year.

The district continues to be creative with staffing and had a teacher retire and return part time, which saves the district dollars.

We have increased operation and maintenance budgets for increased electric and gas costs.

The district leases its busses, which allows us to have a newer bus fleet and saves on maintenance costs.

Contracting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

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BASIC FINANCIAL STATEMENTS

CARSONVILLE-PORT SANILAC SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:	
Cash and equivalents	\$ 892,809
Accounts receivable	55,551
Prepaid expenses	599
Property taxes receivable	7,580
Due from other governmental units	701,096
TOTAL CURRENT ASSETS	1,657,635
NONCURRENT ASSETS:	
Deferred amount on bond refunding	405,000
Less accumulated amortization	(25,313)
Capital assets	13,350,337
Less accumulated depreciation	(5,474,694)
TOTAL NONCURRENT ASSETS	8,255,330
TOTAL ASSETS	\$ 9,912,965
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 38,327
Accrued salaries & wages	311,150
Accrued payroll taxes	23,990
Benefits payable	43,475
Retirement payable	49,386
Deferred revenue	38,168
Accrued interest	61,638
Current portion of long term debt	484,902
Current portion of compensated absences	39,863
TOTAL CURRENT LIABILITIES	1,090,899
NONCURRENT LIABILITIES:	
Noncurrent portion of long term debt	7,692,503
Compensated absences	41,325
TOTAL NONCURRENT LIABILITIES	7,733,828
NET ASSETS:	
Invested in capital assets, net of related debt	77,925
Restricted for debt service	472,915
Unrestricted	537,398
TOTAL NET ASSETS	1,088,238
TOTAL LIABILITIES AND NET ASSETS	\$ 9,912,965

The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,182,733		\$ 190,784	\$ (2,991,949)
Support services	1,634,509		81,765	(1,552,744)
Transfers to other districts	5,354			(5,354)
Food services	229,071	\$ 82,542	136,045	(10,484)
Athletics	172,722	32,378		(140,344)
Interest on long-term debt	357,241		1,016	(356,225)
Other	942			(942)
Amortization	20,250			(20,250)
Unallocated depreciation	426,867			(426,867)
Total governmental activities	<u>\$ 6,029,689</u>	<u>\$ 114,920</u>	<u>\$ 409,610</u>	<u>(5,505,159)</u>
General revenues:				
Property taxes, levied for general purposes				782,741
Property taxes, levied for debt service				742,206
State of Michigan school aid unrestricted				3,756,264
Investment revenue				13,370
Miscellaneous				118,690
Total general revenue				<u>5,413,271</u>
Change in net assets				(91,888)
Net assets, beginning of year				1,180,126
Net assets, end of year				<u>\$ 1,088,238</u>

The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2006

	<u>GENERAL FUND</u>	<u>DEBT RETIREMENT</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and equivalents	\$ 354,830	\$ 534,341	\$ 3,638	\$ 892,809
Accounts receivable	22,701		32,850	55,551
Prepaid expenses	599			599
Due from other governmental units	699,582		1,514	701,096
Due from other funds	3,865	212	-	4,077
TOTAL ASSETS	<u>\$ 1,081,577</u>	<u>\$ 534,553</u>	<u>\$ 38,002</u>	<u>\$ 1,654,132</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts payable	\$ 38,327			\$ 38,327
Accrued salaries & wages	311,150			311,150
Due to other funds	212	-	\$ 3,865	4,077
Accrued payroll taxes	23,990			23,990
Benefits payable	43,475			43,475
Retirement payable	49,386			49,386
Deferred revenue	38,168			38,168
TOTAL LIABILITIES	<u>504,708</u>	<u>-</u>	<u>3,865</u>	<u>508,573</u>
FUND BALANCE:				
Reserved for debt service		\$ 534,553		534,553
Designated for maintenance fund	60,000			60,000
Designated for compensated absences	81,188			81,188
Designated for Bus Lease	69,382			
Undesignated	366,299		34,137	400,436
TOTAL FUND BALANCE	<u>576,869</u>	<u>534,553</u>	<u>34,137</u>	<u>1,145,559</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 1,081,577</u>	<u>\$ 534,553</u>	<u>\$ 38,002</u>	<u>\$ 1,654,132</u>

The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds \$ 1,145,559

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is: 13,350,337

Accumulated depreciation is: (5,474,694)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable: (8,177,405)

Deferred amount on bond refunding 405,000

Amortization (25,313)

Compensated absences: (81,188)

Accrued interest is not reported as a liability in governmental funds; it is recorded when paid: (61,638)

Balance of taxes receivable at 06/30/06 less allowance for doubtful accounts, expected to be collected after September 1, 2006

7,580

Net Assets of Governmental Activities \$ 1,088,238

The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	GENERAL FUND	DEBT RETIREMENT	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Local sources	\$ 879,299	\$ 752,086	\$ 115,036	\$ 1,746,421
State sources	3,745,690	3,271	8,319	3,757,280
Federal sources	272,549		136,045	408,594
TOTAL REVENUES	<u>4,897,538</u>	<u>755,357</u>	<u>259,400</u>	<u>5,912,295</u>
EXPENDITURES:				
Instruction	3,211,887			3,211,887
Supporting services	1,647,003			1,647,003
Food services			229,071	229,071
Athletic services			172,722	172,722
Debt service:				
Principal redemption		392,255		392,255
Interest		355,622		355,622
Other		942		942
TOTAL EXPENDITURES	<u>4,858,890</u>	<u>748,819</u>	<u>401,793</u>	<u>6,009,502</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>38,648</u>	<u>6,538</u>	<u>(142,393)</u>	<u>(97,207)</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other governmental units	22,701			22,701
Transfers from other funds		37,308	128,313	165,621
Transfers to other funds	(165,621)	-	-	(165,621)
Other transfers	(5,354)		-	(5,354)
Payments on loans	(10,000)		-	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(158,274)</u>	<u>37,308</u>	<u>128,313</u>	<u>7,347</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(119,626)</u>	<u>43,846</u>	<u>(14,080)</u>	<u>(89,860)</u>
FUND BALANCE - BEGINNING OF YEAR	696,495	490,707	48,217	1,235,419
FUND BALANCE - END OF YEAR	<u>\$ 576,869</u>	<u>\$ 534,553</u>	<u>\$ 34,137</u>	<u>\$ 1,145,559</u>

The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2006

Total net change in fund balances - governmental funds \$ (89,860)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(426,867)
Amortization expense	(20,250)
Capital outlay	21,440

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	60,019
Accrued interest payable at the end of the year	(61,638)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Principal repayments	408,551
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Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(4,775)
Accrued revenue at the end of the year	7,580

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	95,100
Accrued absences at the end of the year	(81,188)

Change in net assets of governmental activities	\$ (91,888)
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The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 4,969
Accounts Receivable	30,000
<u>TOTAL ASSETS</u>	<u>\$ 34,969</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Due to student organizations	\$ 34,969
Due to other funds	
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 34,969</u>

The accompanying notes are an integral part of the financial statements.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The School district was organized in 1910 and presently covers approximately 78.9 square miles covering all or parts of 8 Townships in Sanilac County. The School District operates under an elected School Board (7 members) and provides educational services to approximately 630 students.

The basic financial statements of the Carsonville-Port Sanilac Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Carsonville-Port Sanilac Schools (the "District") is governed by the Carsonville-Port Sanilac Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method:

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2005 - August, 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue:

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No.40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year.

The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.000
Debt Service Funds	5.700

4. Inventories and Prepaid Items.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue fund consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY (Continued):

5. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

6. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000. Group purchases are evaluated on a case-by-case basis.

7. Deferred Revenues.

The unexpended balance of various federal and/or state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also deferred.

8. Compensated Absences.

Each teacher shall be credited with sixteen sick leave days at the beginning of the school year that can be accumulated to one hundred forty days. All unused sick leave days in excess of one hundred forty days shall be paid to the teacher at the end of the school year on the basis of \$25.00 per day, only after 10 years of service. Other employee groups have contracts with negotiated sick leave benefits at varying levels.

9. Unemployment Insurance.

The District reimburses the State of Michigan Bureau of Worker's & Unemployment Compensation (BW&UC) for the actual amount of unemployment benefits disbursed by the BW&UC on behalf of the District. Billings received for amounts paid by the BW&UC through June 30 are accrued if material.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY (Continued):

10. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources. For the year ended June 30, 2006, the district has designated \$60,000 for the maintenance of existing property and equipment.

12. Use of Estimates.

The process of preparing general purpose financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

13. Interfund Transactions.

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reduction of expenditures/expenses in the fund that is reimbursed.

14. Memorandum Only - Total Column.

The total column on the combined general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

Cash and cash equivalents are held separately in the name of the district by each of the district's funds.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (CONTINUED):

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$964,108 of the District's bank balance of \$1,164,108 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits	\$ 892,809
Fiduciary Funds	<u>4,969</u>
	<u>\$ 897,778</u>

The District has no investments.

NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87% for July 1 through September 30, 2005 and 16.34% for October 1 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributes to MPERS for the years ended June 30, 2006, 2005, and 2004 were \$460,447, \$378,900, and \$343,331 respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits that is the responsibility of the State of Michigan.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (CONTINUED):

OTHER POST-EMPLOYMENT BENEFITS:

Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

NOTE 5 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees'. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 3,865	\$ 212
Special Revenue		3,865
Debt Retirement Fund	<u>212</u>	<u> </u>
Total	<u>\$ 4,077</u>	<u>\$ 4,077</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - OPERATING LEASES:

The School District leases buses and office equipment under operating lease agreements that expire at various dates, respectively. Lease expense amounted to \$58,029. At June 30, 2006, future lease payments under such leases are as follows:

June 30, 2007	\$ 71,584
June 30, 2008	\$ 71,584
June 30, 2009	\$ 1,101

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - LONG-TERM DEBT:

The District issues bonds to provide funds for the acquisition, construction and improvements of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

Copier capital lease, due with monthly installments of \$583 with interest at 3.32%	\$17,828
2000 general obligation building & site bonds due in annual installments ranging from \$220,000 to \$225,000 with interest at 5.250%	1,000,000
2005 general obligation building & site bonds as a result of refunding 2011 – 2026 bonds issued in 2000. The bonds are due in annual Installments ranging from \$30,000 to \$480,000 with interest ranging from 3.00% - 4.75%.	6,370,000
1990 general obligation building & site bonds due in annual installments ranging from \$120,000 to \$150,000 with interest ranging from 7.000% - 7.400%.	150,000
1998 energy improvement bonds due in annual installments ranging from \$10,000-\$15,000 with interest ranging from 3.750% - 4.350%.	25,000
1998 limited obligation bonds (Durant bonds) (face amount \$46,583) due in annual installments ranging from \$2,255-\$11,663 with interest at 4.76%	27,505
2001 Qualified Zone Academy Bonds (face amount \$485,000). The bonds are interest free and are repayable 5/1/2014. The district is required to set aside \$37,308 beginning on 5/1/01 and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds	485,000
2001 Qualified Zone Academy Bonds (face amount \$102,072) used for the purchase of 2 buses. The bonds are interest free and are repayable in two installments of \$51,036 due on 10/17/06 and 10/17/07. The district is required to set aside \$17,018 beginning on 10/17/02 and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds. \$68,048 was put into the account on 7/23/04 when the buses were sold	<u>102,072</u>
Total bonded debt	8,177,405
Accumulated compensated absences	<u>81,188</u>
Total long-term debt	<u>\$8,258,593</u>

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - LONG-TERM DEBT (Continued):

The annual requirements to amortize long-term debt outstanding as of June 30, 2006 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	484,902	336,981	821,883
2008	363,645	315,492	679,137
2009	297,195	296,669	593,864
2010	302,716	281,876	584,592
2011	312,845	266,610	579,455
2012-2016	2,176,102	1,236,717	3,412,819
2017-2021	1,975,000	728,963	2,703,963
2022-2026	<u>2,265,000</u>	<u>262,818</u>	<u>2,527,818</u>
Total	\$8,177,405	\$3,726,126	\$11,903,531
Compensated Absences	<u>81,188</u>		<u>81,188</u>
TOTAL	<u>\$8,258,593</u>	<u>\$3,726,126</u>	<u>\$11,984,719</u>

An amount of \$534,553 is available in the debt service fund to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

The following is a summary of the long-term debt transaction of the district for the year ended June 30, 2006:

	<u>ACCUMULATED SICK & VACATION PAY</u>	<u>GENERAL OBLIGATION</u>
Long-term debt – July 1, 2005	\$ 95,100	\$8,585,956
Net decrease in accumulated compensated absences	(13,912)	
Repayments:		
2005 refunded debt		(30,000)
2000 debt		(235,000)
1990 debt		(125,000)
1998 debt		(10,000)
Durant debt		(2,255)
Copier capital lease		<u>(6,296)</u>
Long-term debt – June 30, 2006	<u>\$81,188</u>	<u>\$8,177,405</u>

Interest expense (all funds) for the year ended June 30, 2006 was \$357,241.

CARSONVILLE-PORT SANILAC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance July 1, 2006</u>
Assets not being depreciated – land	\$ 50,000			\$ 50,000
Other capital assets:				
Land improvements	2,441,725			2,441,725
Building and additions	9,407,076			9,407,076
Machinery and equipment	<u>1,430,096</u>	<u>\$21,440</u>		<u>1,451,536</u>
Subtotal	13,278,897	21,440		13,300,337
Accumulated depreciation:				
Land improvements	(1,118,056)	(122,086)		(1,240,142)
Building and additions	(3,069,187)	(188,458)		(3,257,645)
Machinery and equipment	<u>(860,584)</u>	<u>(116,323)</u>		<u>(976,907)</u>
Subtotal	(5,047,827)	(426,867)		(5,474,694)
Net other capital assets	<u>8,231,070</u>	<u>(405,427)</u>		<u>7,825,643</u>
Net capital assets	<u><u>\$ 8,281,070</u></u>	<u><u>(405,427)</u></u>		<u><u>\$ 7,875,643</u></u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$426,867. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 10- TRANSFERS:

Transfers between funds for the year ended June 30, 2006 were as follows:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$165,621	
Athletic Fund		\$128,313
Debt Retirement Fund		<u>37,308</u>
Total Transfers	<u><u>\$165,621</u></u>	<u><u>\$165,621</u></u>

The transfer to athletic fund from general fund was to subsidize operations. The transfer from general fund to Debt Retirement was to help cover debt payments.

REQUIRED SUPPLEMENTARY INFORMATION

CARSONVILLE-PORT SANILAC SCHOOLS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE
	BUDGET	BUDGET		(UNFAVORABLE)
REVENUES:				
Local sources	\$ 873,617	\$ 902,843	\$ 879,299	\$ (23,544)
State sources	3,729,614	3,704,782	3,745,690	40,908
Federal sources	275,324	244,003	272,549	28,546
TOTAL REVENUES	4,878,555	4,851,628	4,897,538	45,910
EXPENDITURES:				
Instruction	3,188,828	3,303,496	3,211,887	91,609
Supporting services	1,728,142	1,714,384	1,647,003	67,381
TOTAL EXPENDITURES	4,916,970	5,017,880	4,858,890	158,990
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(38,415)	(166,252)	38,648	204,900
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	(143,706)	(170,618)	(165,621)	4,997
Transfers from other governmental units		34,605	22,701	(11,904)
Other transfers	(7,035)	(6,445)	(5,354)	1,091
Payments on loans	(47,307)	(10,000)	(10,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(198,048)	(152,458)	(158,274)	(5,816)
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	\$ (236,463)	\$ (318,710)	(119,626)	\$ 199,084
FUND BALANCE - BEGINNING OF YEAR		696,495	696,495	
FUND BALANCE - END OF YEAR		\$ 377,785	\$ 576,869	

ADDITIONAL INFORMATION

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE FROM LOCAL SOURCES:			
Property Tax		\$ 779,936	
Tuition & Fees		58,702	
Interest income		3,374	
Other		37,287	
TOTAL REVENUE FROM LOCAL SOURCES	<u>\$ 902,843</u>	<u>879,299</u>	<u>\$ (23,544)</u>
REVENUE FROM STATE SOURCES:			
State aid		3,469,621	
Other state grants		276,069	
TOTAL REVENUE FROM STATE SOURCES	<u>3,704,782</u>	<u>3,745,690</u>	<u>40,908</u>
REVENUE FROM FEDERAL SOURCES:			
Title I		215,627	
IDEA Project #050450/0405		31,200	
Rural & Low Income		3,421	
Drug Free		2,227	
Other Federal Revenue		20,074	
TOTAL REVENUE FROM FEDERAL SOURCES	<u>244,003</u>	<u>272,549</u>	<u>28,546</u>
OTHER FINANCING SOURCES:			
Transfers from other government units	34,605	22,701	(11,904)
TOTAL OTHER FINANCING SOURCES	<u>34,605</u>	<u>22,701</u>	<u>11,904</u>
TOTAL REVENUES	<u>\$ 4,886,233</u>	<u>\$ 4,920,239</u>	<u>\$ 34,006</u>

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
Basic Programs:			
Elementary:			
Professional Salaries		\$ 793,920	
Non-Professional Salaries		34,497	
Insurance Benefits		190,434	
FICA, Retirement, etc.		218,908	
Purchased Services		114	
Supplies		22,020	
Miscellaneous		1,054	
Total Elementary	<u>\$ 1,319,822</u>	<u>1,260,947</u>	<u>\$ 58,875</u>
Secondary:			
Professional Salaries		816,155	
Non-Professional Salaries		15,075	
Insurance Benefits		201,650	
FICA, Retirement, etc.		221,421	
Purchased Services		428	
Supplies		28,550	
Capital Outlay		3,059	
Miscellaneous		9,051	
Total Secondary	<u>1,322,384</u>	<u>1,295,389</u>	<u>26,995</u>
Latch Key:			
Non-Professional Salaries		27,586	
FICA, Retirement, etc.		5,731	
Supplies		2,391	
Miscellaneous		131	
Total Latch Key	<u>35,845</u>	<u>35,839</u>	<u>6</u>

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
Added Needs:			
Special Education:			
Professional Salaries		\$ 113,496	
Non-Professional Salaries		23,697	
Insurance Benefits		68,905	
FICA, Retirement, etc.		42,527	
Purchased Services		66,492	
Supplies		4,037	
Capital Outlay		829	
Miscellaneous		248	
Total Special Education	<u>\$ 325,871</u>	<u>320,231</u>	<u>\$ 5,640</u>
Federal Programs:			
Professional Salaries		91,901	
Non-Professional Salaries		1,300	
Insurance Benefits		20,757	
FICA, Retirement, etc.		22,472	
Purchased Services		194	
Supplies		25,608	
Total Federal Programs	<u>162,231</u>	<u>162,232</u>	<u>(1)</u>
Compensatory Education (At-Risk):			
Professional Salaries		87,710	
Insurance Benefits		24,392	
FICA, Retirement, etc.		18,950	
Supplies		6,197	
Total Compensatory Education (At-Risk)	<u>137,344</u>	<u>137,249</u>	<u>95</u>
TOTAL INSTRUCTION:	<u>3,303,496</u>	<u>3,211,887</u>	<u>91,609</u>

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES:			
Pupil Services:			
Guidance Services:			
Professional Salaries		\$ 44,680	
Non-Professional Salaries		9,202	
Insurance Benefits		19,370	
FICA, Retirement, etc.		13,059	
Purchased Services		3,775	
Supplies		175	
Total Guidance Services	<u>\$ 91,045</u>	<u>90,261</u>	<u>\$ 784</u>
Improvement of Instruction:			
Professional Salaries		7,328	
Non-Professional Salaries		2,405	
FICA, Retirement, etc.		2,335	
Purchased Services		9,045	
Supplies		1,166	
Total Improvement of Instruction	<u>49,031</u>	<u>22,279</u>	<u>26,752</u>
Library:			
Professional Salaries		74,721	
Insurance Benefits		15,748	
FICA, Retirement, etc.		17,763	
Supplies		3,674	
Miscellaneous		409	
Total Library	<u>117,029</u>	<u>112,315</u>	<u>4,714</u>

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
General Administration:			
Non-Professional Salaries		\$ 81,520	
Insurance Benefits		4,547	
FICA, Retirement, etc.		8,678	
Purchased Services		21,586	
Supplies		902	
Miscellaneous		4,036	
Total General Administration	<u>\$ 125,424</u>	<u>121,269</u>	<u>\$ 4,155</u>
School Administration:			
Professional Salaries		160,740	
Non-Professional Salaries		47,124	
Insurance Benefits		62,400	
FICA, Retirement, etc.		58,417	
Purchased Services		4,536	
Supplies		2,814	
Miscellaneous		975	
Total School Administration	<u>340,370</u>	<u>337,006</u>	<u>3,364</u>
Board of Education			
Professional Salaries		2,145	
FICA, Retirement, etc.		11	
Purchased Services		10,295	
Miscellaneous		2,263	
Total Board of Education	<u>18,455</u>	<u>14,714</u>	<u>3,741</u>

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Business - Fiscal Services:			
Professional Salaries		\$ 48,889	
Insurance Benefits		17,494	
FICA, Retirement, etc.		23,494	
Purchased Services		9,270	
Supplies		479	
Miscellaneous		28,124	
Total Business - Fiscal Services:	<u>\$ 134,054</u>	<u>127,750</u>	<u>\$ 6,304</u>
Operation of Plant:			
Non-Professional Salaries		131,189	
Insurance Benefits		56,297	
FICA, Retirement, etc.		37,415	
Purchased Services		270,484	
Supplies		14,757	
Capital Outlay		11,255	
Miscellaneous		14,997	
Total Operation of Plant	<u>545,596</u>	<u>536,394</u>	<u>9,202</u>
Pupil Transportation:			
Non-Professional Salaries		104,286	
Insurance Benefits		14,397	
FICA, Retirement, etc.		27,799	
Purchased Services		64,417	
Supplies		39,006	
Capital Outlay		400	
Miscellaneous		2,832	
Total Pupil Transportation	<u>260,645</u>	<u>253,137</u>	<u>7,508</u>

CARSONVILLE-PORT SANILAC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Technology:			
Purchased Services		\$ 21,703	
Supplies		2,812	
Capital Outlay		7,363	
Total Technology	<u>\$ 32,736</u>	<u>31,878</u>	<u>\$ 858</u>
TOTAL SUPPORTING SERVICES	<u>1,714,384</u>	<u>1,647,003</u>	<u>67,381</u>
TOTAL EXPENDITURES	<u>5,017,880</u>	<u>4,858,890</u>	<u>158,990</u>
OTHER FINANCING USES:			
Transfers to other funds	170,618	165,621	4,997
Other transfers	6,445	5,354	1,091
Payments on loans	10,000	10,000	-
TOTAL OTHER FINANCING USES	<u>187,063</u>	<u>180,975</u>	<u>6,088</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,204,943</u>	<u>\$ 5,039,865</u>	<u>\$ 165,078</u>

CARSONVILLE-PORT SANILAC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>TOTAL 2006</u>
<u>ASSETS</u>			
Cash in bank	\$ 3,103	\$ 535	\$ 3,638
Accounts receivable	32,850		32,850
Due from other governmental units	1,514		1,514
<u>TOTAL ASSETS</u>	<u>\$ 37,467</u>	<u>\$ 535</u>	<u>\$ 38,002</u>
 <u>LIABILITIES & FUND BALANCE</u>			
LIABILITIES:			
Due to other funds	\$ 3,865	\$ -	\$ 3,865
<u>TOTAL LIABILITIES</u>	<u>3,865</u>	<u>-</u>	<u>3,865</u>
FUND BALANCE	33,602	\$ 535	34,137
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 37,467</u>	<u>\$ 535</u>	<u>\$ 38,002</u>

CARSONVILLE-PORT SANILAC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>COMBINED</u>	<u>COMBINED BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:					
Local Sources:					
Sale of meals & milk	\$ 79,396		\$ 79,396	\$ 82,000	\$ (2,604)
Admissions		\$ 28,714	28,714	27,800	914
Interest	64	52	116	300	(184)
Other	3,146	3,664	6,810	3,200	3,610
Total Local Sources	<u>82,606</u>	<u>32,430</u>	<u>115,036</u>	<u>113,300</u>	<u>1,736</u>
State Sources:					
State Lunch Aid	8,319		8,319	9,000	(681)
Other	-		-	1,535	(1,535)
Total State Sources	<u>8,319</u>	<u>-</u>	<u>8,319</u>	<u>10,535</u>	<u>(2,216)</u>
Federal Sources:					
National School Lunch Program	125,721		125,721	105,000	20,721
USDA Commodities	10,324		10,324	-	10,324
Total Federal Sources	<u>136,045</u>	<u>-</u>	<u>136,045</u>	<u>105,000</u>	<u>31,045</u>
TOTAL REVENUE	<u>226,970</u>	<u>32,430</u>	<u>259,400</u>	<u>228,835</u>	<u>30,565</u>
EXPENDITURES:					
School Service Activities:					
Professional salaries	79,377		79,377	67,600	(11,777)
Employee benefits	52,816		52,816	51,500	(1,316)
Food & milk	95,250		95,250	86,700	(8,550)
Athletics activities		172,722	172,722	168,500	(4,222)
Miscellaneous	1,628		1,628	2,400	772
TOTAL EXPENDITURES	<u>229,071</u>	<u>172,722</u>	<u>401,793</u>	<u>376,700</u>	<u>(25,093)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,101)</u>	<u>(140,292)</u>	<u>(142,393)</u>	<u>(147,865)</u>	<u>5,472</u>
OTHER FINANCING SOURCES:					
Transfers from General Fund		128,313	128,313	133,500	(5,187)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>128,313</u>	<u>128,313</u>	<u>\$ 133,500</u>	<u>(5,187)</u>
NET CHANGE IN FUND BALANCE	<u>(2,101)</u>	<u>(11,979)</u>	<u>(14,080)</u>	<u>\$ (14,365)</u>	<u>\$ 285</u>
FUND BALANCE - JULY 1	35,703	12,514	48,217		
FUND BALANCE - JUNE 30	<u>\$ 33,602</u>	<u>\$ 535</u>	<u>\$ 34,137</u>		

CARSONVILLE-PORT SANILAC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>DURANT DEBT SERVICE</u>	<u>1990 DEBT SERVICE</u>
<u>ASSETS</u>		
Cash and equivalents	\$ -	\$ 22,580
Due from other funds	-	37
<i>TOTAL ASSETS</i>	<u><u>\$ -</u></u>	<u><u>\$ 22,617</u></u>
<u>LIABILITIES & FUND BALANCE</u>		
Reserved for debt service	\$ -	\$ 22,617
<i>TOTAL LIABILITIES & FUND BALANCE</i>	<u><u>\$ -</u></u>	<u><u>\$ 22,617</u></u>

<u>2005 REFUNDING</u>	<u>2001 ENERGY CONSERVATION IMPROVEMENT BOND (QZAB)</u>	<u>SCHOOL BUS (QZAB)</u>	<u>TOTALS</u>
			<u>2006</u>
\$ 210,720 175	\$ 195,529 -	\$ 105,512 -	\$ 534,341 212
<u><u>\$ 210,895</u></u>	<u><u>\$ 195,529</u></u>	<u><u>\$ 105,512</u></u>	<u><u>\$ 534,553</u></u>
\$ 210,895	\$ 195,529	\$ 105,512	\$ 534,553
<u><u>\$ 210,895</u></u>	<u><u>\$ 195,529</u></u>	<u><u>\$ 105,512</u></u>	<u><u>\$ 534,553</u></u>

CARSONVILLE-PORT SANILAC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2006

	<u>DURANT DEBT SERVICE</u>	<u>1990 DEBT SERVICE</u>
REVENUES FROM LOCAL SOURCES:		
Local Sources:		
Current tax levy	-	\$ 151,038
Interest on investments	-	197
Total Local Sources	<u>-</u>	<u>151,235</u>
State Sources:		
State school aid	\$ 3,271	
TOTAL REVENUES	<u><u>3,271</u></u>	<u><u>151,235</u></u>
EXPENDITURES:		
Retirement of bonds	2,255	125,000
Interest on bonded debt	1,016	20,225
Bond fees and charges	-	666
TOTAL EXPENDITURES	<u><u>3,271</u></u>	<u><u>145,891</u></u>
OTHER FINANCING SOURCES (USES):		
Transfer from other funds		
Transfer to other funds		
TOTAL OTHER FINANCING SOURCES (USES):	<u><u>-</u></u>	<u><u>-</u></u>
NET CHANGE IN FUND BALANCE	-	5,344
FUND BALANCE - JULY 1	-	17,273
FUND BALANCE - JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ 22,617</u></u>

<u>2005 REFUNDING</u>	<u>2001 ENERGY CONSERVATION IMPROVEMENT BOND (QZAB)</u>	<u>SCHOOL BUS (QZAB)</u>	<u>TOTALS</u> <u>2006</u>
\$ 591,168	\$ -	\$ -	\$ 742,206
5,484	2,680	1,519	9,880
<u>596,652</u>	<u>2,680</u>	<u>1,519</u>	<u>752,086</u>
			3,271
<u>596,652</u>	<u>2,680</u>	<u>1,519</u>	<u>755,357</u>
265,000	-	-	392,255
334,381	-	-	355,622
276	-	-	942
<u>599,657</u>	<u>-</u>	<u>-</u>	<u>748,819</u>
	37,308		37,308
			-
<u>-</u>	<u>37,308</u>	<u>-</u>	<u>37,308</u>
<u>(3,005)</u>	<u>39,988</u>	<u>1,519</u>	<u>43,846</u>
213,900	155,541	103,993	490,707
<u>\$ 210,895</u>	<u>\$ 195,529</u>	<u>\$ 105,512</u>	<u>\$ 534,553</u>

CARSONVILLE-PORT SANILAC SCHOOLS
AGENCY FUND
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND LIABILITIES
YEAR ENDED JUNE 30, 2006

	BALANCE JUNE 30, 2005	CASH RECEIPTS	CASH DISBURSEMENTS	BALANCE JUNE 30, 2006
Academic awards	\$ 921	\$ 314	\$ 1,214	\$ 21
Academic Memorial Fund	1,434	57	1,057	434
Alt Ed Misc	-	400	150	250
Art Club	167	155	-	322
Band	663	49	462	250
Baseball	-	434	684	(250)
Book Fund	181	-	158	23
Boys Basketball	-	9,700	9,175	525
Careers	331	-	-	331
Central office - miscellaneous	383	286	100	569
Cheerleading	-	3,193	2,832	361
Class of 2005	417	-	-	417
Class of 2006	348	1,512	2,128	(268)
Class of 2007	326	1,605	1,315	616
Class of 2008	184	24	-	208
Class of 2009	-	318	128	190
Community Enrichment	30	-	-	30
Croos Country Team	-	3,386	1,101	2,285
District Pride	68	-	-	68
Drivers Education	106	-	-	106
Economics Club	8	-	-	8
Elementary Academic Boosters	2,874	23,718	21,046	5,546
Elementary Art	59	-	-	59
Elementart Extra Curricular	-	4,873	2,452	2,421
Elementary Library Book Fund	-	1,846	1,625	221
Elementary RIF Program	1,830	1,565	2,987	408
Elementary Store	32	-	-	32
Elementary Student Assistance	125	-	-	125
Elementary Student Council	67	-	-	67
Football Team	-	2,391	1,448	943
French Club	20	-	-	20
Freshman BB	-	237	-	237
Girls Basketball	-	1,040	243	797
Golf Team	-	508	327	181
High School (pop)	736	2,552	3,170	118
High School Student Assistance	308	185	81	412
High School Student Council	6,566	6,167	8,042	4,691
Honor society	136	3,364	3,107	393
Honor Society Field Trip	319	4,709	4,317	711
Interest earned	436	128	-	564
Lock replacement	201	-	-	201
Middle School Student Council	256	4,925	4,492	689
Middle School Technology	250	-	-	250
Miscellaneous	175	3,306	2,395	1,086
Mitchell Memorial	89	-	-	89
Natural Helpers	161	-	-	161
Office machines	7	-	-	7
Science Department	222	-	-	222
Softball Team	-	2,119	2,095	24
Special Activities	349	-	-	349
Theater 13	1,178	6,341	6,636	883
Toys for Tots	32	-	-	32
Track Team	-	2,268	848	1,420
Travel Club	-	17,159	16,785	374
Video Arts	85	-	-	85
Volleyball	-	348	-	348
Yearbook	4,205	2,418	2,316	4,307
TOTAL AGENCY FUND	\$ 26,285	\$ 113,600	\$ 104,916	\$ 34,969

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT
2001 ENERGY CONSERVATION IMPROVEMENT BOND (QZAB)
June 30, 2006

PRINCIPAL DUE MAY 1	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
	JUNE 30	AMOUNT
\$ 485,000	2014	\$ 485,000
<u>\$ 485,000</u>		<u>\$ 485,000</u>

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT
SCHOOL BUS (QZAB)
June 30, 2006

PRINCIPAL DUE OCTOBER 17	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
	JUNE 30	AMOUNT
\$ 51,036	2007	\$ 51,036
51,036	2008	51,036
<u>\$ 102,072</u>		<u>\$ 102,072</u>

As of June 30, 2005, the District had set aside the full amount to cover this obligation.

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT
1998 DEBT RETIREMENT FUND
June 30, 2006

<u>PRINCIPAL DUE MAY 1</u>	<u>INTEREST DUE</u>	<u>INTEREST DUE</u>	<u>DEBT SERVICE REQUIREMENT FOR FISCAL YEAR</u>	
	<u>MAY 1</u>	<u>NOVEMBER 1</u>	<u>JUNE 30</u>	<u>AMOUNT</u>
\$ 10,000	\$ 539	\$ 539	2007	\$ 11,078
15,000	326	326	2008	15,652
<u>\$ 25,000</u>	<u>\$ 865</u>	<u>\$ 865</u>		<u>\$ 26,730</u>

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT
1990 DEBT RETIREMENT FUND
June 30, 2006

<u>PRINCIPAL DUE MAY 1</u>	<u>INTEREST DUE</u>	<u>INTEREST DUE</u>	<u>DEBT SERVICE REQUIREMENT FOR FISCAL YEAR</u>	
	<u>MAY 1</u>	<u>NOVEMBER 1</u>	<u>JUNE 30</u>	<u>AMOUNT</u>
\$ 150,000	\$ 5,550	\$ 5,550	2007	\$ 161,100
<u>\$ 150,000</u>	<u>\$ 5,550</u>	<u>\$ 5,550</u>		<u>\$ 161,100</u>

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT - DURANT BONDS
June 30, 2006

PRINCIPAL DUE MAY 15	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
	MAY 15	JUNE 30	AMOUNT
\$ 2,362	\$ 909	2007	\$ 3,271
10,888	4,549	2008	15,437
2,592	679	2009	3,271
2,716	555	2010	3,271
2,845	426	2011	3,271
2,980	291	2012	3,271
3,122	149	2013	3,271
<u>\$ 27,505</u>	<u>\$ 7,558</u>		<u>\$ 35,063</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing school buildings and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the School Aid Payments directly to the Authority's Depository.

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT
2000 DEBT RETIREMENT FUND
June 30, 2006

PRINCIPAL DUE MAY 15	INTEREST DUE MAY 15	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		JUNE 30	AMOUNT
\$ 235,000	\$ 370,363	2007	\$ 605,363
245,000	358,025	2008	603,025
255,000	345,163	2009	600,163
265,000	331,775	2010	596,775
<u>\$ 1,000,000</u>	<u>\$ 1,405,326</u>		<u>2,405,326</u>

On April 12, 2005 Carsonville-Port Sanilac School District refunded the 2011 through 2026 bonds for the purpose of better interest rates and erecting, furnishing, and equipping additions to the District's Elementary School and Middle/High School.

CARSONVILLE-PORT SANILAC SCHOOLS
SCHEDULE OF BONDED DEBT
REFUNDING BONDS, SERIES 2005
June 30, 2006

PRINCIPAL DUE MAY 1	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
	MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
\$ 30,000	\$ 135,454	\$ 135,454	2007	\$ 300,908
35,000	134,929	134,929	2008	304,858
35,000	134,317	134,317	2009	303,634
35,000	133,704	133,704	2010	302,408
310,000	133,092	133,092	2011	576,184
320,000	127,279	127,279	2012	574,558
325,000	121,079	121,079	2013	567,158
335,000	114,579	114,579	2014	564,158
345,000	107,879	107,879	2015	560,758
360,000	100,764	100,764	2016	561,528
370,000	93,114	93,114	2017	556,228
385,000	85,714	85,714	2018	556,428
395,000	77,773	77,773	2019	550,546
405,000	69,133	69,133	2020	543,266
420,000	60,020	60,020	2021	540,040
430,000	50,570	50,570	2022	531,140
440,000	41,433	41,433	2023	522,866
450,000	31,808	31,808	2024	513,616
465,000	21,964	21,964	2025	508,928
480,000	10,920	10,920	2026	501,840
<u>\$ 6,370,000</u>	<u>\$ 1,785,525</u>	<u>\$ 1,785,525</u>		<u>9,941,050</u>

On April 12, 2005 Carsonville-Port Sanilac School District refunded the 2011 through 2026 bonds for the purpose of better interest rates and erecting, furnishing, and equipping additions to the District's Elementary School and Middle/High School.



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Jerry J. Bernhardt, CPA
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Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 22, 2006

To the Board of Education
Carsonville-Port Sanilac Schools
Carsonville, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carsonville-Port Sanilac Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Carsonville-Port Sanilac Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Carsonville-Port Sanilac Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Education
Carsonville-Port Sanilac Schools
September 22, 2006

This report is intended for the information of the board of education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



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September 22, 2006

To the Board of Education
Carsonville-Port Sanilac School District
Carsonville, Michigan 48419

In planning and performing our audit of the financial statements of Carsonville-Port Sanilac School District for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated September 22, 2006, on the financial statements of Carsonville-Port Sanilac School District.

Segregation of Duties

Due to the limited number of people, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. We recommend the district segregate duties whenever possible.

FDIC Insurance Limits

While conducting the audit of cash we noted the school district had cash on deposit in excess of the federally insured limit in a financial institution. This presents a potential for losses to the district in the event of bank or institutional failure. We suggest that management closely monitor cash balances and transfer excess balances to other banks, where possible, to reduce the potential for loss of monetary amounts in excess of the federally insured level.

Internal Control Procedures

Since the receipts and disbursements of the athletic, hot lunch, and student activity funds are not under the same scrutiny as the general fund we recommend that the Board periodically review the internal control procedures of each of these funds.

We recommend that the District review internal control procedures for the athletic, hot lunch, and student activity funds including cash receipts procedures and expense approval procedures.

New Rules For §403(B) Plans

Final regulations have still not been finalized.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letter to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act, we believe the district's current budget procedures are adequate.

These budgets also need to be posted on the school district's website.

Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies, "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exist.

To the Board of Education
Carsonville-Port Sanilac Schools

September 22, 2006
Page four

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various schools district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Carsonville-Port Sanilac School District, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS